

Message Text

LIMITED OFFICIAL USE POSS DUPE

PAGE 01 CARACA 07505 01 OF 02 071612Z

66

ACTION ARA-20

INFO OCT-01 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-03

COME-00 DODE-00 EB-11 FPC-01 H-03 INR-11 INT-08 L-03

NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01 SCI-06

SP-03 SS-20 STR-08 TRSE-00 FRB-03 FEA-02 PA-04 PRS-01

USIA-15 AGR-20 SWF-02 DRC-01 /196 W

----- 124564

R 071519Z AUG 74

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 5175

LIMITED OFFICIAL USE SECTION 1 OF 2 CARACAS 7505

E.O. 11652: N/A

TAGS: ETRD, VE

SUBJ: INVENTORY OF VENEZUELA TRADE PROBLEMS

REF: STATE 168953

1. EMBASSY COMMENTS ARE KEYED TO THE FOUR HEADINGS GIVEN IN THE REFTEL.

2. PRINCIPAL VENEZUELAN TRADE PROBLEMS WITH THE UNITED STATES:

A. MARKET ACCESS FOR OILC: SINCE THE ADVENT OF THE WORLD OIL CRISIS, THE TERM "WESTERN HEMISPHERE OF PREFERENCE" HAS NOT BEEN HEARD HERE AND IS ABVIOUSLY NOT A CURRENT PROBLEM. ALTHOUGH IT FOLLOWED THE WORLD OIL PRICE INCREASE, VENEZUELA DID NOT PARTICIPATE IN THE ARAB OIL BOYCOTT. BECAUSE THE VENEZUELAN GOVERNMENT ACTED RESPONSIBLY BY CONTINUING TO SUPPLY ITS TRADITIONAL CUSTOMERS FOR PETROLEUM PRODUCTS THROUGHOUT THE CRISIS, IT WOULD BE NATURAL FOR VENEZUELA TO ASSUME THAT IT MERITS SUCH A PREFERENCE IF FUTURE CONDITIONS WARRANT IT. FURTHER, AS REPORTED IN THE EMBASSY'S PETROLEUM INDUSTRY OUTLOOK REPORT) CARACAS A-159) VENEZUELAN OIL EXPORTS TO THE UNITED STATES AND CANADA HAVE

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 CARACA 07505 01 OF 02 071612Z

GROWN FROM 54 PERCENT TO 67 PERCENT OF ITS TOTAL OIL EXPORTS. THIS REFLECTS THE NATURAL MARKET ADVANTAGE VENEZUELA ENJOYS WITH

NORTH AMERICA. (RECENT ARTICLES APPEARING IN WALL STREET JOURNAL AND OTHER MEDIA PREDICT LONG-TERM, CONTINUED U.S. DEPENDENCE ON IMPORTED OIL.) IF REFERENCE TO "FUTURE DEVELOPMENTS" IN PARA 3.A.1 IS MEANT TO IMPLY PROJECT INDEPENDENCE, THEN USG SHOULD RETAIN MEMORY OF VENEZUELAN SUPPORT DURING 1973/74 CRISIS.

B. MARKET ACCESS FOR NON-TRADITIONAL EXPORTS: THIS CONTINUES TO BE A GOAL, BUT NOT OF FIRST RANK IMPORTANCE. MUCH GREATER EMPHASIS IS BEING GIVEN TO UPGRADING IMPORTANT RAW MATERIAL EXPORTS, E.G. CRUDE STEEL AND SEMI-FINISHED STEEL IN PLACE OF IRON ORE, PETRO-CHEMICALS, FERTILIZER AND REFINED OIL PRODUCTS RATHER THAN CRUDE OIL AND GAS. ALSO, THE GOV HAS RECENTLY CONCENTRATED ON IMPROVING QUALITY AND INCREASING VARIETY OF INDUSTRIAL PRODUCTS FOR DOMESTIC MARKET, RATHER THAN EXPANDING THESE INDUSTRIES FOR EXPORT TO U.S. MARKET.

C. SUGAR QUOTA: WITH U.S. CONGRESSIONAL DEFEAT OF SUGAR ACT, VENEZUELAN QUOTA CEASES TO BE AN ISSUE. SHOULD THERE BE A NEW SUGAR ACT AT SOME FUTURE TIME WHICH INCLUDES A PROVISION FOR COUNTRY QUOTA, VENEZUELA WOULD PROBABLY WISH TO BE INCLUDED. FOR THE PRESENT, SUCH A WISH IS ACADEMIC, AS VENEZUELA HAS BECOME A DEFICIT PRODUCER AND RECENTLY PURCHASED SUGAR ON THE NEW YORK MARKET.

D. ASSURED SUPPLY OF FOODSTUFFS AND RAW MATERIALS: PRESSURE HAS EASED SOMEWHAT ON THIS PROBLEM AS SHORTAGES HAVE BEEN GENERALLY OVERCOME. IT IS TYPE OF PROBLEM THAT COULD FLARE AGAIN IN A MOMENT IF ACUTE SHORTAGES RECUR. IT WOULD HAVE MORE INFLATIONARY IMPACT THE NEXT TIME, AS THE GOV HAS RECENTLY DROPPED ALL SUBSIDIES ON IMPORTED ITEMS IN THIS CATEGORY UNDER THE GOVERNMENT'S NEW POLICY TO RATIONALIZE THE ECONOMY. RAW MATERIAL SHORTAGES WHICH MIGHT RETARD KEY DEVELOPMENT PROJECTS, SUCH AS INSUFFICIENT FERROUS SCRAP FOR THE EXPANDING STEEL INDUSTRY, POSE THE MOST POTENTIALLY SERIOUS PROBLEMS. VENEZUELA APPEARS TO BE COMMITTED TO DEALING WITH THE PROBLEM OF PRICE INFLATION ON ITS NEEDED IMPORTS BY OIL PRICE ADJUSTMENTS WITHIN THE OPEN MECHANISM.

3. PRINCIPAL U.S. TRADE PROBLEMS WITH VENEZUELA:
LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 03 CARACA 07505 01 OF 02 071612Z

A. OIL SUPPLY: OUR BEST UNDERSTANDING OF THE PRESENT VENEZUELAN OIL CONSERVATION POLICY IS THAT IT IS CONSISTENT WITH ACCEPTED TECHNOLOGY AS NECESSARY TO MAINTAIN OPTIMUM PRODUCTION LEVELS OF THE AGING OIL FIELDS IN THE MARACAIBO BASIN AND TO CONSERVE NATURAL GAS FOR THE DEVELOPING PETROCHEMICAL INDUSTRIES. IN OTHER WORDS, IT IS NOT YET AN OPEC PRICE MAINTENANCE POLICY. UNTIL MAJOR NEW OIL FIELDS ARE DEVELOPED, WHETHER OFFSHORE, IN THE SOUTH LAKE MARACAIBO REGION, OR THE ORINOCO TAR BELT, MOST AUTHORITIES AGREE THAT IT WILL NOT BE POSSIBLE FOR VENEZUELA

TO SIGNIFICANTLY INCREASE PRESENT OIL PRODUCTION.

B. OIL PRICES: VENEZUELA IS TOTALLY COMMITTED TO MAINTAINING THE PRESENT PRICE OF OIL. IN FACT, VENEZUELA WENT BEYOND THE OPEC GUIDELINES SET AT THE JUNE QUITO MEETING BY HIKING THE PRICES OF LIGHTER GRAVITY CRUDE OIL AND THREATENING TO INCREASE THE INCOME TAX RATE, WHEN THE OPEN MEETING AGREED ONLY TO INCREASE THE ROYALTY RATE 2 PERCENT. THIS COUNTRY WILL SUPPORT THE OPEC MEMBER COUNTRIES OPPOSING A PRICE REDUCTION, AND WOULD PROBABLY SUPPORT A DECISION TO REDUCE PRODUCTION IN ORDER TO MAINTAIN HIGH OIL PRICES.

C. IRON ORE SUPPLY: STATEMENT IN REFTEL IS ACCURATE, WITH QUALIFICATION THAT IRON ORE EXPORTS MAY NOT BE TOTALLY DISCONTINUED IN THE FUTURE. RATHER, THE REDUCTION OF IRON ORE EXPORTS MIGHT BE RELATED TO THE NEEDS OF THE DEVELOPING STEEL INDUSTRY. IF STEEL EXPANSION GOES QUICKLY, IRON ORE EXPORTS MIGHT BE REDUCED QUICKLY. BUT THE GOV MUST PROTECT THE WELFARE OF THE WORK FORCE IN GUAYANA, AND IT IS NOT CONSIDERED LIKELY THAT HIGH UNEMPLOYMENT WILL BE TOLERATED IN ORDER TO CONSERVE THE IRON ORE RESOURCE.

D. SHARE OF THE MARKET: EMBASSY CONCURS.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE POSS DUPE

PAGE 01 CARACA 07505 02 OF 02 071925Z

66

ACTION ARA-20

INFO OCT-01 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-03

COME-00 DODE-00 EB-11 FPC-01 H-03 INR-11 INT-08 L-03

NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01 SCI-06

SP-03 SS-20 STR-08 TRSE-00 FRB-03 FEA-02 PA-04 PRS-01

USIA-15 AGR-20 SWF-02 DRC-01 /196 W

----- 125731

R 071519Z AUG 74

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 5176

LIMITED OFFICIAL USE SECTION 2 OF 2 CARACAS 7505

4. PRINCIPAL VENEZUELAN TRADE PROBLEMS WITH OTHER LATIN AMERICAN COUNTRIES:

A. OIL SUPPLY AND PRICE: EMBASSY CONCURS WITH STATEMENT.

B. CONTRABAND: VENEZUELA IS DEFICIENT IN MEAT PRODUCTION AND DURING THE DRY SEASON DEPENDS ON CATTLE IMPORTS, CONTRABAND OR OTHERWISE, TO FILL THE VACUUM. THE TRADITIONAL SOURCE OF CATTLE, COLOMBIA, SHIPPED MUCH OF ITS SURPLUS TO EUROPE WHERE HIGHER PRICES WERE OFFERED. THIS FORCED VENEZUELAN CATTLE AND MEAT BUYERS TO TURN TO COSTA RICA TO FILL THE GAP. CONTRABAND ALSO EXISTS THROUGH MARGARITA ISLAND, BUT THIS HAS NOT RESTRAINED THE VENEZUELAN GOVERNMENT FROM ESTABLISHING A FREE PORT THERE. IN THE OVERALL CONTEXT, CONTRABAND IS PROBABLY NOT A PRINCIPAL TRADE PROBLEM.

C. THE ANDEAN PACT IS FAR AND AWAY THE MOST IMPORTANT TRADE PROBLEM WITH WHICH VENEZUELA MUST COPE. THIS SUBJECT HAS BEEN TREATED IN MANY OTHER MESSAGES AND WILL CONTINUE TO BE A SUBJECT OF HEVY REPORTING BY ALL EMBASSIES IN THE ANDEAN PACT REGION.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 CARACA 07505 02 OF 02 071925Z

D. EMBASSY CONCURS THAT CANADA IS SECOND MOST IMPORTANT EXPORT MARKET FOR OIL.

E. NOT MENTIONED IN REFTTEL, BUT SOMETHING FOR FUTURE CONSIDERATION, IS WIDELY PREDICTED RESUMPTION OF VENEZUELAN TRADE WITH CUBA. CERTAINLY OIL AND SUGAR WILL FIGURE IN THIS TRADE WHEN IT COMES ABOUT VENEZUELA HAS ALREADY SOLD RICE TO CUBA THIS YEAR.

5. PRINCIPAL VENEZUELAN TRADE PROBLEMS WITH NON-HEMISPHERIC COUNTRIES:

A. CARTEL MANAGEMENT WITH OPEC: EMBASSY CONCURS WITH THIS STATEMENT.

B. TRADE IMBALANCE: IF PROJECT FOR JAPAENSE-VENEZUELAN ALUMINUM PLANT IN GUAYANA GOES FORWARD, TRADE IMBALANCE WITH JAPAN WILL BE QUICKLY REDRESSED BY LARGE SCALE ALUMINUM EXPORTS FROM THIS COUNTRY TO JAPAN. HOWEVER, AFTER PRESIDENT PEREZ ANNOUNCED THAT JAPANESE CONTRACTS WOULD HAVE TO BE RENEGOTIATED, BOTH JAPANESE CONSORTIUMS WHICH WERE INTERESTED IN A LARGE INVESTMENT IN ALUMINUM HAVE WITHDRAWN AND WORK ON THE SITE OF THE PROJECTED NEW ALUMINUM PLANT HAS STOPPED.
MCCLINTOCK

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TRADE DATA, TRADE COMPLAINTS
Control Number: n/a
Copy: SINGLE
Draft Date: 07 AUG 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: cunninfx
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974CARACA07505
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740216-0099
From: CARACAS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740868/aaaacgnf.tel
Line Count: 220
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: STATE 168953
Review Action: RELEASED, APPROVED
Review Authority: cunninfx
Review Comment: n/a
Review Content Flags:
Review Date: 17 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <17 JUL 2002 by kelleyw0>; APPROVED <25 FEB 2003 by cunninfx>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: INVENTORY OF VENEZUELA TRADE PROBLEMS
TAGS: ETRD, VE, US, CA, XM
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005